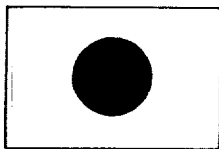
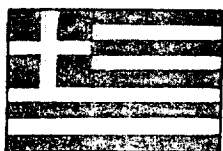


## **Towards a Global View**

Summary of the Proceedings



**Philip Morris Companies Inc.**  
**1986 Corporate Affairs World Conference**  
**Westin Hotel, Washington, D.C.**  
**September 7-10, 1986**



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WILLIAM RUDER

Summary of Conference Proceedings

The array of ideas and the dazzling personalities that we've been exposed to are contradictory. Some have told us that we entered the age of small companies and others tell us it is all bigness. Perhaps they are both right, and we will see how that comes out.

Mark Russell said this may be the turning point of your life. We did learn from him that if you deal with a scalpel and if you toss humor in, you can say almost anything and get away with it. As I watched the films we had on the program, I noticed the deftness with which each of those films used humor to make points, the kinds of exclamation points with which I was able to carry away an idea. I also noticed that there was a beat in these films, a contemporariness, a need to catch up with where we are in the rest of the world today. These were not just ordinary films. These were films in a mood and films that were crafted very, very skillfully.

When Stan Scott opened the conference he made two points that were particularly useful. The first was that we are in a new ballgame now. We all have a lot of learning to do about each other's businesses. No matter how good we are at what we do, the things that we have to learn about Philip Morris or the things that we have to learn about General Foods, are just massive and that is going to take some quiet time on the part of each of us.

The second thing was that we now have so many tools at our disposal that one of our big challenges is to use them creatively, not just put them on a routine production line.

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From Stan's introduction we moved on to Hamish Maxwell. He felt that the most useful thing he could do for us is to let us understand how he defines the company and its goals and what he expects from us. He made four points.

The first one is that we are committed to unlimited growth and strength...unlimited growth and strength.

Secondly, he demands that we be successful in all of our businesses, not just some of them. He insists on the improvement of both unit growth and profits, not just one or the other.

The third point that he made is that he has to look to us to create the environment in which management is going to be able to foster excellence and also, from his value structure, he expects us to be able to do our jobs with a quotient of fun. He made that point quite strongly.

And the fourth point is that we have to protect ourselves from government and from other forces that are going to intrude on us with unwarranted restrictions. And that is the point at which he looks to people like you and me, with the greatest sense of expectation.

After Hamish's presentation, Hugh Sidey came on with his elegance and his wit. He had a couple of strong points that he wanted to make. Besides the one which I think we'll all take for granted, namely that the world is a global village and that we are in an era of instant communication, he talked about the role of leadership and style. He warned us that we can't take any of this for granted in terms of any preconceived notion of what we might consider to be leadership and the style of leadership. He said you can find it in a lot of different people and in a lot of different

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ways. When you look at us, a company with over 100,000 people in it, it begins to become clear that one of the things that we are going to have to do is grow our own leadership. Having people with their own sense of style and leadership in our company is going to be even more important than it ever was.

Furthermore, leadership in this function, the kind of leadership that we get from Stan and demand from Stan, and the people who come after Stan, is going to be terribly important to us. In each of the pockets of management we have to develop that sense of leadership and that sense of style, and that fits exactly into the kind of creativity that Stan was talking about. We have a lot of latitude in how we express that leadership and style and in our individualistic ways in which we approach that.

Hugh Cullman tried to clarify our constituency for us because we are now so large that we have to have an accurate compass as to where we're going, what we're aiming at. Hugh tried to give us his understanding of what the aim was.

I think also he set up a warning for us, a real caution. That caution is that we are so big that we have created a bureaucracy here, and he expects that each one of us will know something is important enough to bust through the bureaucracy. We can't allow ourselves to get bogged down by that bureaucracy.

After that Fred Newman and Dave Zelkowitz came on with the liability question. I think it was Fred who started off with the story of the the guy who had the refrigerator strapped to his back, like the man who shot his mother and father and pleaded for clemency before the judge because he was an orphan. It is exactly that kind of irrationality that we're up against.

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They both warned us that the law reflects society, and that the law is a changing instrument and that we have to have our fingers on the pulse of society so that we know where it is going. They also warned us that what happens in the United States spreads to the rest of the world.

The trial lawyers are a perfect example of that old saying that if at first you don't succeed, you're just about average. The trial lawyers of America are just about average: they have not succeeded but they are going to keep right on going. There is the other little one-liner that says we will prevail in the long run or shortly thereafter. That's the way the trial lawyers have to run their business and they're going to be here for the hereafter and we're going to have to be with them. All of this underscores the unpredictability of our life. Whether the threat comes from the trial lawyers or some new point of law that somehow or other they synthesize, we will have to be continuously nimble and continuously flexible and prepared for response on a 360 degree battlefield.

One of our lawyers, when asked how in the world he manages to sleep, said he sleeps like a baby -- he gets up every hour and cries.

Senator Sasser talked about the Big D -- Deficit. He broke the deficit down in two classic ways, namely our trade deficit and our budgetary deficit. He sees no way in which these things are going to be eliminated: they're probably going to be with us for as long as we're here. Implied in what he said was the fact that we're at the head of the list. You can't hide an elephant -- and right now we're as big as an elephant -- and as long as there are Big D's around, we are going to be looked to as one of the patsies. Again that underscores the need for us to have a flexible response, the

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need for us to be creative, and the need for us to be ever vigilant.

Andrew Neil, from the Sunday London Times, had five points. The first was his concept that we are in an age that is interested in the idea of smallness. We've gotten as big in the macro institutions around here as we can usefully get and that we are going to be breaking down into smaller ones. He talked about telecommunications and what he considered to be the revolution in transportation, which I've heard in other ways -- namely, that communication has now become a substitute for transportation. Instead of moving things, you can now communicate, and ultimately, there are those people who tell us that we will be able to take a Bill Ruder, God forbid, and replicate him and set him down in Los Angeles tomorrow. But communications is the largest growth industry in the world, and that was his third point.

He talked to us about the waning influence of bigness in terms of government, in terms of labor, and in terms of business, and he concluded with this chilling script of the threat of nuclear terror, state backed nuclear terror. As I was listening to Ken Defren's presentation this morning on crisis management, I began to get the feeling that what we've done up to now is schooling for the type of thing that we're going to have to live with every week in the year, and that we can do well by learning as much as we can about crisis management as in that case history this morning.

When the workshops came up I wandered around and I tried to pick up a theme -- an idea from each one of them. I was impressed when I listened to the one on advertising and then when I correlated that this morning with the panel, and I began to see how much of what we are doing is moving towards the more expert and continuous use of

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advertising, which used to be a territory that was closed to us. I can remember years ago that if we dared to think of the possibility of using advertising as one of our tools in public issues or public relations, either one, the marketing people would go up in smoke. I think that we are going to become as expert users of the advertising tool as they are and perhaps even more expert because we are dealing with subtleties that are much more refined than even those that come into play in the marketing arena. Just rehearse in your mind those case stories -- Canada, Hong Kong, California, etc., etc. all to a major extent dependent upon the skillful use of the advertising tool. I think two years from now when we sit here, there are going to be some real advertising people among us, people that we've trained in our kind of work to bring their skills closer to home.

One of the other workshops dealt with a projection of 1994, and they dared to say that we might be a \$104 billion company by then, they dared to say that we might be faced with six kinds of new taxes, which are a testimony to the incredible fertility of the human mind. They were working on employee communications and exploring the kinds of pressures they might be required to marshal the employee resource against.

The workshop on increasing media coverage concentrated on the ways in which we can use some of the new non-traditional techniques that we're beginning to experiment with to get into the media -- the way in which we use that marvelous tour of the jazz greats in Europe to get television time in Europe. There will be more and more of that as time goes on. Other workshops, the one on coalitions and the one on constituency building, brought home the fact that in a very real sense we are a coalition here. We have to do the kind of

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alliance building in this place that we charge ourselves with doing outside because we stumble over each other too often. And we have to learn not to stumble over each other.

We also let Old Faithful go off every 70 seconds or so and we don't have a bucket to catch that water. Miller is doing something, PM USA is doing something -- neither one knows what the other is doing. To some extent this cannot be helped because we have gotten so big, but we have to minimize this and we have to find the ways to get it all together and we have to find the ways for the total to be greater than the sum of its parts. Unless we can do that, we're wasteful, and if we're wasteful, management is going to know it. And if management knows it, we are not going to have their support.

After that particular set of workshops, we had a plenary with John Murphy. John harked back to Hamish's point, namely that he wants us to be careful in the use of buzz words. When we start to talk about "tough competition" or "difficulties of the marketplace" -- and we are in a marketplace, the marketplace of politics, the marketplace of media -- those are buzz words and no excuse. When we talk about marketshare, rather than absolute growth, that's no excuse. We expect great absolute growth.

Just listening to John you get a sense of this incredible array of the great brand names of the world that you and I represent, Marlboro and Jell-O and Maxwell House and Miller and so forth. I don't think anybody that I know of has had the benefit of those kinds of brand names, products that they've been born and raised with and that are part of the American scene, as the kinds of things that they are in a position to be presenting to the public of the world. It is just a fabulous thing. It is like being given a

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diamond necklace to show to somebody. We have that necklace, and we have all these jewels in it and it is something to be immensely proud of.

Then came the commercial free speech and advertising panel. Nick Katzenbach started that one off by telling us that we can't depend on the First Amendment any more, that we have to depend on political action. There is that old saying that business is a hotbed of social rest, and that we can't be socially restful any more. We have to be in the political hurly-burly. It's a battle that we have to keep fighting all the time. There is no automatic defense for us even in the great First Amendment. He talked about a seamless web of freedom, and he said that if one strand is pulled out, the whole fabric is going to tend to unravel. In that sense we are on the side of the angels. We are one of the defenders of a tremendous value in our society. That makes me feel kind of good about what I am doing. And I think it becomes the tool for us to use in getting all kinds of help as we move through our problems.

Emmett Tyrrell made the point that freedom is in the highest order of our value structure and that there are lots of different kinds of freedom. There is freedom of assembly and freedom to be healthy and have medical attention, and so on and so forth, but the freedom of the individual within the order of freedoms is, in his opinion, the highest priority of freedom. When you start to talk about the freedom of the individual and when you look at what Katzenbach said in terms of the fabric of freedom and that you can't let it unravel, what we are doing is protecting the keystone of that whole thing.

He warned us that we should be careful not to depend on labels

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and he said that we can have as much trouble from the conservatives as we do from the liberals. You really have to listen to what people are saying and where they are coming from, and don't take anything for granted.

Iampolsky on that panel introduced us to Libertad-- and put the whole thing in its worldwide focus. I submit that that's something that each one of us should keep an eye on because Libertad might be a vehicle that any one of us can climb on and ride, and ride well in the years to come. It is going to be enormously valuable, and don't lose sight of it, please.

After that panel we had Representative Martin, who reminded us that only a Republican administration could have gotten a tax reform through that is going to dump \$100 billion dollars onto the backs of business.

She also said that in spite of the escalation of the burden, in her opinion, the weight of social security is leveling off. The thing to watch out for in terms of a portent of national bankruptcy, is the Medicare program, both in terms of our social framework and also in terms of the sheer demographics that coincide with our social value structure. She also warned us that the way the new tax bill is set up it's going to be very easy to raise taxes. If you remember she said, just say one percentage point, that's all and you've got it and it's billions and billions of dollars. Again, you can't hide an elephant, and who is the elephant? US! So there we are.

She wound up comparing where we are today with a hundred years ago. Who in the world would want to change places? I think she is right.

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Next was the panel on Congress and the Executive branch. They went through the baffling numbers of issues that we're faced with, and points of contact that we have to touch. One thing each of them said is that there is nothing wrong in acting in your own self interest -- everybody does. That doesn't mean that you are against other people, but you are there to protect yourself. You have to identify the self-interest of other people and find creative ways to associate yourself with their self-interest.

The State legislature people pointed up the fact that legislative direction is now moving from the bottom up, things are emerging from the states. The fact that there are 8,000 taxing entities in New York State affects us. We must remember that California is the ace power in the world.

They pointed up a couple of issues that we've got to keep our eye on in these key states for 1987: clean air, Proposition 65 and water in California: the Public Health Commission, and self-extinguishing cigarette in New York.

Tommy Ahrensfeld zeroed in on the relationship between agricultural economics and politics and the fact that it's on a worldwide canvas. We'd all better learn about those relationships.

Jim Ferguson dealt with management priorities, namely communications in and out, and that business in general depends on societal permission, and that we can't prosper in a business unless society is thriving as well. And he talked about the "fingerspitzen," which I think is a beautiful kind of a metaphor to deal with.

He said business has to have the capability to turn a threat into an opportunity and he used nutrition, calorie consciousness,

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and so forth, as his example. I think he came up with what might be called Ferguson's Law -- there is no such thing as a routine crisis.

This morning our panel came up with a whole array of initiatives: a magazine, the use of advertising, aggressive speech making, contests. We got the International Food Information Council and deal with Aspartame and Nutrasweet and so forth.

When I try to synthesize a few of the lietsmotifs that ran through our whole two-and-a-half days, I see that we have spent years in collecting people, in learning and putting resources in place. 1986 as I see it was a year in which we took these people and those resources and started to take the initiative with them. It is the year that we moved from pure defensive activity to an initiative taking and aggressive activity. It is the year in which we started to use all of those creative juices brought on by a certain amount of frustration that has been building up in all of us. I think as we look ahead we are going to be called on by Stan, by the board of directors, by management to do more of those kinds of things. Some of them involve risk taking, and we are going to have to learn to be even better risk takers than we ever were before.

We are in many ways the old pogo -- we've met the enemy and he is us. We do have these problems of learning each other's business. We do have these problems of coordinating together and not stumbling upon each other. We do have the problem of making two and two equal six, and I think management expects those things from us.

And I myself come out of this with a feeling that self-interest is legitimate in our society, that the values that are inherent in the kinds of things that we are trying to work on are values that I

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can be proud of -- the value of freedom, the value of individual dignity, the value of job protection, the quality of life and the security of economic health of this country and of the many other countries in which we work, and of the world economy in general.

If that's our charge, if freedom and dignity and jobs and quality of life and economic health are our charge, I don't think we have to be bashful in facing up to anybody, so God bless you and have a swell time.

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Opening Remarks by Stanley S. Scott  
PHILIP MORRIS CORPORATE AFFAIRS WORLD CONFERENCE  
Westin Hotel, Washington, D.C.  
Sunday September 7

Tuesday September 9

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This is our largest corporate affairs gathering yet.

I think our theme -- Toward a Global View -- is especially appropriate.

These days all of us are part of a global, round-the-clock corporate affairs operation. What hits San Francisco or Hong Kong today becomes the model for what may hit Saudi Arabia or Boston tomorrow.

Public pressures are building on all our industries...all over the world. All of us have to be ready to respond...at all times.

This is also our fourth Corporate Affairs Conference. We started in New York in 1980, and went to Williamsburg in 1982. Two years ago we met in the tranquil, campus-like setting of the Arrowood conference center in Westchester.

This year, we've moved from the campus to the combat zone. It's anything but tranquil here in Washington, especially for Philip Morris.

We're within range of the big guns on Capital Hill and at the White House, the Federal Trade Commission, the Food and Drug Administration, and the Pentagon.

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We're subject to sniper fire from hundreds of Washington law firms and consumer groups...

...and from others among all the self-appointed saints of smokelessness, sodium awareness, and sobriety.

As the Conference progresses, we'll analyze our battle plans for keeping our products both affordable and socially acceptable.

Affordability and acceptability. Those are our two key goals.

But clearly, the combat has intensified since we last convened.

Just here in Washington, the Surgeon General of the United States pushed harder than ever for a smokeless society in the year 2000, proposed banning all forms of cigarette advertising, and pressed for smoking restrictions in all federal buildings.

Last year, Congress mandated rotating cigarette warning labels.

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This year, the Pentagon restricted smoking in the armed forces.

Though they haven't succeeded, Congressional tax writers targeted cigarettes, beer and other alcoholic beverages for steeper federal excise taxes.

And the FDA couldn't decide whether the public should feel more threatened by caffeine or the decaffeinating process... by sugar, or by aspartame.

Thanks to many of you, of course, Washington wasn't always unfriendly. The Office of the U.S. Trade Representative helped us dent the cigarette import barriers in Japan, Taiwan and South Korea.

Congress helped restructure the tired old federal tobacco program.

We successfully defended ourselves against those pressures to ban beer and cigarette advertising, as well as pressures to label ingredients and regulate decaffeination.

Outside Washington, the battle was similarly mixed in the court houses, state houses, and city halls, as well as in the parliaments and palaces of our international regions.

The product liability onslaught began in earnest. And though so far the industry hasn't lost a case, more than 100 cases are pending.

The barrage of state and local excise taxes continued to build.

In more than half the country, local restrictions on smokers in public places and on their jobs increased. The most celebrated case in point? The anti-smoking bill Mayor Koch cooked up for New York City with the advice and counsel of Joe Califano.

Pressure built in statehouses to raise the drinking age, and anti-alcohol extremists took their place next to GASP and ASH as thorns in the side of people who favor making responsible individual choices. Cliff Williams and George Woodward are on a lot of commuter flights these days.

And the copying abroad of anti-smoking actions in the U.S. has been happening with a vengeance. The World Health Organization called for the elimination of smoking around the world. Ireland wants a health warning that says, quote, "Smoking kills." Pressure is building in Latin America for bans on advertising and events promotions.

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In the Middle East, the Gulf States want stiffer health warnings and lowered tar and nicotine. Bernie Robinson has been spending so much time fighting those threats that the folks at EEMA call him Bernie of Arabia.

So we have never been so severely challenged.

But we have never been so capable of meeting the challenges.

The resources for meeting them are sitting right in this room. By making the most of this conference, we will increase the potency of these resources -- meaning yourselves-- in the future.

Let me offer a few suggestions.

First, we've got to build on our creativity. That's important. Hamish Maxwell has talked about our company's commitment to rewarding what he calls "sensible risk-taking that leads to outstanding achievement." Well, if he's not talking about us, we should quit.

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What I mean is creativity in mobilizing our constituencies... such as Guy Smith and his team showed in the grassroots effort against Senator Packwood's early tax reform proposals that would have ended the deductability of excise taxes as a business expense...

Or the creative use of people, like International's deployment of the superb Philip Morris Superband in this country and 16 countries in Europe and Asia...

Or creative responses to crises, like Andy Schroder and his people at General Foods have demonstrated in dealing with the product contamination scares...

Or creative lobbying, like Al Easton and his group at Miller did in collaboration with the beverage and media industries to beat back ad bans...

Or creativity in using our resources, like Van Stevens and his people are displaying at this very moment as they host the 10th anniversary meeting of the International Association of Town Planners...

Or creativity in reaching out to latent supporters, as we did with our two-day corporate seminar for the publishers of black-owned newspapers...

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Or as our Washington office did in building a cross-industry coalition to lobby successfully against increased excise taxes and in building support for better market access in Japan, Taiwan, and Korea.

It may be a blessing in disguise that our antagonists give us a few reasons to be anxious. Anxiety seems to be a particularly good spur to creativity.

Demonstrating that creativity, we've learned anew that there's no particular virtue in doing things the way they always have been done.

We've learned that we've all got to keep making the time to stand back from our routine responses -- responses that, incidentally, may once have served us very well -- and make sure they're still paying off. As Hugh Cullman once said about bureaucracy, "for every new procedure we create, let's abolish two."

Ultimately, creativity means buckling down and working hard. You've heard it before, but in the circumstances it's worth repeating. Creativity is 10 percent inspiration--and 90 percent perspiration.

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Creativity is a game of details. Details make up the great mosaic of our mission to preserve our markets and defend our position. No threat... no opportunity... no constituency... no issue... is too small to be approached with the energy and vision that comprise creativity.

In particular, we've got to learn as much as possible. That means learning and caring about new businesses. Tobacco and beer people have got to get to know the concerns of the food business, and our General Foods colleagues have got to do the same with tobacco and beer.

In our line of work, sometimes there's nothing better for the creative juices than getting out there for a day with a sales representative to learn what our products are doing in the marketplace. That's a tradition around Philip Morris, and the sales staff welcomes it.

I encourage all of you to spend a day on the road. I'll even help you set it up.

But the most concentrated dose of learning available to all of us... in the next few days, at least... is this conference.

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So make your time here quality time. Attend the plenary sessions. Take part in the workshops. Ask questions and take notes. Press the panelists and workshop leaders for information and clarification until you feel you know what you want to know.

And then ask more questions!

Don't confine your curiosity to formal sessions, either. Ask each other questions during coffee breaks and meals or over drinks.

And at tonight's Congressional reception... work the room. Quiz our Congressional guests. They'll be happy to chat with you. After all, they know better than most that there's no such thing as a free buffet.

Look. Our opportunities are as large as our challenges... and we have the resources to succeed.

If I could sum up my charge to you for these three days, and for the many days beyond, it would be: Know each other, know the issues, know the best means of successfully managing those issues, and take creative risks.

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If we identify issues early enough, involve others, work creatively, and have just a bit of luck, we will have our share of successes.

You are a great team. I can't think of a better group of companions with which to accomplish our mission. I thank you for being here... and for doing an outstanding job.

So there's just no reason we can't manage our issues as well as we manage our businesses.

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SPEECH BY HAMISH MAXWELL  
GIVEN AT CORPORATE AFFAIRS CONFERENCE  
SEPTEMBER 8, 1986, WASHINGTON D.C.

WELCOME

IT'S TWO YEARS SINCE THE LAST CORPORATE AFFAIRS CONFERENCE. AT THAT TIME, HUGH CULLMAN, JOHN MURPHY, STANLEY SCOTT, I AND OTHERS WERE NEW IN OUR JOBS AND CONSIDERING OUR PRIORITIES.

TODAY, I'M GOING TO TALK TO YOU ABOUT FOUR OF THOSE PRIORITIES; HOW I BELIEVE WE ARE MANAGING THEM -- AND WHERE I BELIEVE PHILIP MORRIS IS GOING WITH THEM.

THE PRIORITIES I WILL SPEAK ABOUT ARE:

ONE: TO REDEFINE WHAT KIND OF COMPANY P.M. SHOULD BE AND WHAT KIND OF BUSINESS IT SHOULD CONDUCT IN ORDER TO MAXIMIZE ITS VALUE TO OUR STOCKHOLDERS AND ITS BENEFITS TO OUR EMPLOYEES.

TWO: TO BE VERY SUCCESSFUL IN ALL THE BUSINESSES TO WHICH WE COMMIT OURSELVES.

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THREE: TO FOSTER A WORKING ENVIRONMENT WHICH WILL HELP THAT  
SUCCESS CONTINUE.

FOUR: TO SEEK TO PROTECT P.M.'S INTERESTS FROM GOVERNMENT AND  
OTHER ENVIRONMENTAL FORCES WHICH COULD DAMAGE THEM.

IT IS OUR CONVICTION THAT P.M. SHOULD FOCUS ON MANUFACTURING AND  
MARKETING SUPERIOR, GROCERY-TYPE CONSUMER GOODS. TYPICALLY THESE  
SHOULD BE LOW TICKET, VALUE ADDED, HIGH TURNOVER PRODUCTS. THIS  
IS THE AREA OF OUR GREATEST SUCCESS, OUR SKILLS AND OUR  
EXPERIENCE.

IN THE COURSE OF REDEFINING THIS BUSINESS PURPOSE, WE SOLD OUR  
INDUSTRIAL DIVISION BECAUSE IT WAS INCOMPATIBLE WITH OUR  
STRATEGIC BUSINESS FOCUS.

FIRST, WE ACQUIRED G.F. BECAUSE IT IS COMPATIBLE WITH OUR  
STRATEGIC FOCUS.

SECOND, BECAUSE WITHOUT THIS ACQUISITION 90% OF OUR EARNINGS WERE  
DERIVED FROM CIGARETTES. THIS WAS A DEPRESSANT ON OUR STOCK  
MARKET EARNINGS-MULTIPLE AND IT WAS INHIBITING THE OVERALL RETURN  
OUR STOCKHOLDERS SHOULD EXPECT FROM A BUSINESS AS SUCCESSFUL AS  
P.M.

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THIRD, BECAUSE OUR MAJOR COMPETITORS IN CIGARETTES, RJR NABISCO AND BAT INDUSTRIES, WERE ALREADY MORE SUCCESSFULLY DIVERSIFIED THAN P.M. AND WE WERE CONCERNED THAT OUR ABILITIES TO COMPETE EFFECTIVELY WITH THEM WOULD BE PREJUDICED IF WE DID NOT ALSO BROADEN OUR EARNINGS BASE.

I BELIEVE OUR STRATEGY IS SOUND, THAT YOU SHOULD EXPECT US TO FOLLOW IT IN ITS FUNDAMENTALS, AND THAT IT PROVIDES P.M. WITH OPPORTUNITIES FOR PRACTICALLY UNLIMITED GROWTH BOTH IN THE U.S.A. AND INTERNATIONALLY.

THE NEXT PRIORITY IS TO BE VERY SUCCESSFUL IN ALL OUR BUSINESSES, NEW AND OLD. THIS SEEMS OBVIOUS BUT IT WAS A PRIORITY TO ENSURE THAT, IN DIVERSIFYING OUR EARNINGS BASE, WE DID NOT BLEED, OR MILK, OR NEGLECT OUR CIGARETTE BUSINESS. ANOTHER REASON TO KEEP THIS A PRIORITY IS TO RECOGNIZE THAT WE DO HAVE THE ASSETS TO CONTINUE OUR SUCCESSFUL GROWTH AND WE MUST EXPLOIT THEM. IN CIGARETTES AND IN BEER WE HAVE SUPERIOR PRODUCTS, OUTSTANDING TRADEMARKS, THE MOST MODERN AND EFFICIENT FACILITIES, THE BEST R&D, EXCELLENT MARKETING, AND THE FINANCIAL RESOURCES TO SUPPORT IT.

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I FEEL VERY CONFIDENT THAT G.F. SIMILARLY HAS THE ASSETS AND THE MANAGEMENT AND OTHER RESOURCES TO CONTRIBUTE SUPERIOR PERFORMANCE TO OUR CONTINUING SUCCESS.

THE SUCCESSES WE LOOK FOR MUST BE MEASURABLE, AND THREE MOST IMPORTANT MEASURES THAT WE TAKE ARE:

-GROWTH IN PHYSICAL UNIT VOLUME.

-GROWTH IN EARNINGS -- FOR THE CORPORATION, PARTICULARLY GROWTH IN EARNINGS PER SHARE.

-IMPROVED RETURNS ON OUR LOW-RETURN BUSINESSES.

ON THESE SCORES, OUR PERFORMANCE IS MIXED.

OVERALL, P.M. COMPANIES CONTINUES TO GROW WELL IN REVENUES AND EARNINGS. BOTH SHOULD MORE OR LESS DOUBLE THIS YEAR WHEN COMPARED TO 1981, FIVE YEARS AGO, JUST AS 1981 REVENUES AND EARNINGS WERE MORE OR LESS DOUBLE THOSE OF 1976. THIS IS SUPERIOR PERFORMANCE. HOWEVER WE RECOGNIZE THAT OUR REVENUE GROWTH THIS YEAR WILL BE BOOSTED BY THE ACQUISITION OF G.F. AND OUR EARNINGS GROWTH HAS BEEN HEAVILY DEPENDENT ON PRICE INCREASES. PUT ANOTHER WAY, OUR PHYSICAL UNIT VOLUME GROWTH IS NOT STRONG ENOUGH -- AND MUST BE IMPROVED. ALSO, WE STILL HAVE TO IMPROVE THE PROFITABILITY OF SOME OF OUR LOW-RETURN BUSINESSES.

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THE THIRD PRIORITY I MENTIONED IS TO FOSTER A WORKING ENVIRONMENT AND ETHIC WHICH WILL ENSURE THAT OUR SUCCESS CONTINUES.

I'LL ILLUSTRATE THIS BY GIVING YOU SOME CHARACTERISTICS OF P.M. AND ITS PEOPLE THAT I BELIEVE WE SHOULD PROMOTE:

FIRST, THE QUALITY OF BEING "AMBITIOUS FOR OUR BUSINESS". THIS IS A POSITIVE WAY OF SAYING "NEVER LET'S BECOME COMPLACENT". NO MATTER HOW WELL WE ARE DOING, WE CAN ALWAYS DO BETTER. ANOTHER WAY TO SHOW THIS QUALITY OF AMBITION IS FOR US NEVER TO SETTLE FOR THE SECOND-BEST OR SECOND-RATE, IN WHAT WE EXPECT OF OURSELVES, OR OUR COLLEAGUES, OR OUR PRODUCTS, OR OUR SUPPLIERS, OR OUR PLANS AND PROGRAMS. COMPROMISE IN THIS AREA IS JUST NOT ACCEPTABLE: WE HAVE TO AIM FOR THE FIRST-RATE IN EVERYTHING WE DO.

NEXT, WE WANT P.M. TO BE FUN TO WORK FOR. FUN IN A STIMULATING, NOT A RELAXING WAY. IT SHOULDN'T BE LIKE THE MARINE CORPS -- NOR LIKE THE POST OFFICE. WE WANT PEOPLE TO LOOK FORWARD TO COMING TO WORK IN THE MORNING.

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THIS MEANS P.M. MUST BE FAIR. WHATEVER ANYONE ELSE IS DOING, WE ARE MORE COMMITTED THAN EVER TO AFFIRMATIVE ACTION AND EQUAL OPPORTUNITY PROGRAMS. WE ARE WORKING TO IMPROVE OUR COMPENSATION SYSTEMS TO REWARD MERIT BETTER AND TO RECOGNIZE PERFORMANCE THAT LEADS TO GOOD RESULTS.

WE ARE RESULTS-ORIENTED. OF COURSE WE WANT TO HELP DEVELOP AND TRAIN OUR PEOPLE -- BUT THIS IS NOT A BUSINESS END IN ITSELF.

MANAGEMENT DEVELOPMENT PROGRAMS MUST PAY OFF IN MEASURABLE RESULTS. FOR EACH OF US AS INDIVIDUALS, I ASSURE YOU THAT AT PHILIP MORRIS YOU DO NOT NEED TO BE A MASTER OF EVERY BUSINESS DISCIPLINE OR TO HAVE FIVE DIFFERENT JOBS IN THE COMPANY IN 10 YEARS -- IN ORDER TO CONTINUE BEING PROMOTED OR TO REACH THE TOP. YOU DO NEED TO PRODUCE RESULTS: THAT'S GOOD FOR YOU AND GOOD FOR THE BUSINESS.

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WE WANT TO BE LIVELY, AWARE, FLEXIBLE, QUICK-MOVING, CREATIVE AND INNOVATIVE. IN OTHER WORDS, WE DON'T WANT TO BE STODGY, BUREAUCRATIC OR OVER-ANALYTICAL. OF COURSE, WE SHOULD BE GENERALLY ANALYTICAL IN OUR APPROACH TO BUSINESS-BUILDING: AND STRINGENTLY ANALYTICAL ON BIG PROJECTS OR PROBLEMS. BUT I WANT TO DISCOURAGE TOO MUCH OF THE KIND OF SYSTEMIZED ANALYSIS WHICH SOME COMPANIES GENERATE AS THEY GET BIGGER. IT CAN ALSO GENERATE THE ESSENCE OF BUREAUCRACY. IT CAN DISCOURAGE CREATIVITY AND STIFLE THE APPLICATION OF THE PERSONAL JUDGMENT AND THE GUT DECISION MAKING WHICH HAVE BROUGHT P.M. MOST OF ITS BIGGEST SUCCESSES.

THE NEXT QUALITY WE'D LIKE TO FOSTER, I'LL CALL "NO EXCUSES". BEGIN BY AVOIDING EXCUSES THROUGH RECOGNIZING PROBLEMS, SEEKING HELP ON THEM, AND DOING SOMETHING TO FIX THEM BEFORE SOMEBODY ELSE FORCES US TO REACT. EVEN WHEN WE HAVE A PERSISTENT PROBLEM WE DON'T WANT EXCUSES. THEY COME IN RECOGNIZABLE DISGUISES. THE PHRASE "INTENSIVE COMPETITION" IN AN OPERATING REPORT -- OR AN ANNUAL REPORT -- USUALLY MEANS BAD NEWS AND IT'S USUALLY A FORM OF EXCUSE. WHY SHOULD WE EXPECT OUR COMPETITION TO BE ANYTHING BUT INTENSE?

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ANOTHER SYMPTOM IS WHEN WE BEGIN TO TALK LESS ABOUT OUR OWN, ABSOLUTE SALES PERFORMANCE AND MORE ABOUT "INDUSTRY CONDITIONS", COMPETITORS' ACTIVITIES AND MARKET SHARE -- USUALLY THIS MEANS MORE BAD NEWS! I BELIEVE STRONGLY THAT ABSENT A REALLY ABNORMAL DISASTER, WE HAVE THE RESOURCES, SKILLS AND WE CERTAINLY HAVE THE AMBITION TO HAVE OUR SALES VOLUME GROW IN DECLINING INDUSTRIES. WE ARE ACHIEVING THIS IN SEVERAL MARKETS AND MARKET SEGMENTS, HERE AND INTERNATIONALLY, AND I EXPECT US TO ACHIEVE IT IN MORE.

ANOTHER QUALITY TO WHICH P.M. MUST ADHERE IS ONE I'VE ALREADY REFERRED TO IN ANOTHER CONTEXT BUT I'LL REPEAT IT, SIMPLY BECAUSE IT'S SO IMPORTANT -- "QUALITY CONSCIOUSNESS".

THE LAST PRIORITY I MENTIONED IS ONE THAT IS PARTICULARLY GERMANE TO THIS MEETING AND TO YOUR JOBS. "TO SEEK TO PROTECT P.M.'S INTERESTS FROM GOVERNMENT AND OTHER ENVIRONMENTAL FORCES WHICH MAY DAMAGE THEM".

2025417799



MILITARY SMOKING IS OF COURSE THE BIGGEST ISSUE FOR US AND IT'S WAY OUT OF PROPORTION. A RECENT SURVEY OF THE SURGEON GENERAL'S REPORTED STATEMENTS SHOWS THAT HE'S 25 TIMES MORE CONCERNED ABOUT CIGARETTE SMOKING THAN HE IS ABOUT DRUG ABUSE. THAT'S ILLEGAL DRUGS: TO MY KNOWLEDGE, HE'S SHOWN NO CONCERN AT ALL ABOUT UNKNOWN SIDE EFFECTS OF PRESCRIPTION DRUGS.

WE ALL KNOW THAT IF PEOPLE STOPPED SMOKING, STOPPED DRINKING BEER BECAUSE IT'S ALCOHOLIC, STOPPED EATING RED MEAT, ANIMAL FATS, ARTIFICIAL PRESERVATIVES, ADDED SUGAR AND ADDED SODIUM, STOPPED CONSUMING CAFFEINE -- STOPPED ALL OR ANY OF THEM: THEY WOULD NOT LIVE FOREVER.

COMMON SENSE TELLS ME THEY WOULDN'T LIVE ANY LONGER THAN THEY DO NOW. AND LET'S REMEMBER, THAT DESPITE ALL THESE ALLEGED BAD HABITS, PEOPLE ARE LIVING LONGER AND IN BETTER HEALTH THAN EVER, ANYWAY.

PEOPLE USE OUR PRODUCTS BECAUSE THEY ENJOY THEM -- THEY DON'T HAVE TO USE THEM (SEAT BELTS ARE SOMETIMES DANGEROUS AND YOU HAVE TO USE THEM). WE ARE DOING MORE TO DEFEND OURSELVES THAN EVER BEFORE -- OF COURSE WE NEED TO.

2025417800

WE ARE SPENDING MORE MONEY AND ADDING AND DIVERTING MORE OF OUR HUMAN RESOURCES TO HELP US.

WE ARE SEEKING AND RETAINING MORE QUALIFIED OUTSIDE HELP AND ADVICE TO MAKE MORE EFFECTIVE OUR LOBBYING AND OUR COMMUNICATIONS WITH OUR CONSTITUENCIES AND THE PUBLIC.

OUR GENERAL MANAGEMENT IS SPENDING MORE TIME IN WASHINGTON: TO UNDERSTAND POLITICIANS AND THE POLITICAL PROCESS BETTER AND TO LEND WEIGHT TO OUR POSITIONS AND TO THE PRESENTATION OF OUR ARGUMENTS.

THIS MEETING IS IN WASHINGTON...

WE MEET REGULARLY TO IDENTIFY EMERGING PUBLIC ISSUES THAT CAN AFFECT US, AND TO TAKE ACTION TO COMBAT POTENTIAL THREATS BEFORE THEY DEVELOP OR OVERWHELM US.

ON THE BIGGEST POTENTIAL EXTERNAL THREAT OF ALL TO P.M. -- THE PRODUCT LIABILITY SUITS AGAINST CIGARETTE MANUFACTURERS, WE RECOMMITTED OURSELVES IN 1984 TO SPARE NO REASONABLE EXPENSE OR RESOURCE TO ENSURE OURSELVES THE BEST POSSIBLE DEFENSE. THE LAST YEAR HAS BEEN ENCOURAGING BUT THIS THREAT REMAINS.

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IN ALL OUR CORPORATE AFFAIRS ACTIVITIES WE KNOW WE NEED TO DO MORE AND DO IT MORE EFFECTIVELY: AND WE WILL.

FINALLY, WE ARE WINNING SOME OF OUR BATTLES -- THANKS TO YOU. THE WAR CAN NEVER BE FINALLY WON.

BECAUSE GOVERNMENTS ARE STRONGER THAN CORPORATIONS AND THEY WILL GOVERN AND WILL REGULATE, NO MATTER WHAT OUR BUSINESS.

THE MAIN ISSUES WE FACE THOUGH, REPRESENT BATTLES WE CAN WIN -- AND WITH YOUR HELP, WE WILL.

WE'RE PROUD OF YOU FOR THE BATTLES YOU HAVE WON AND DON'T BE CONCERNED THAT YOUR VICTORIES ARE SOMETIMES MUCH LESS VISIBLE THAN THE OCCASIONAL DEFEAT.

IN CLOSING, I WANT TO REFER TO P.M. AS A VERY LARGE, AS WELL AS A VERY SUCCESSFUL ENTERPRISE. THIS, I BELIEVE, BRINGS POSITIVE BENEFITS TO OUR PUBLIC AFFAIRS ACTIVITIES.

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IT'S OBVIOUS TO YOU THAT OUR BUSINESS STRATEGY AND OUR AMBITIONS WILL LEAD US TO BECOME EVEN LARGER IN THE FUTURE THAN WE ARE TODAY. THIS GROWTH AND INCREASING SIZE AND SCOPE PRESENT PROBLEMS BUT THEY ARE MANAGEABLE.

IN PUBLIC AFFAIRS, BEING BIG SURELY HAS TO HELP. WE EMPLOY TENS OF THOUSANDS OF PEOPLE, THEY'RE IN EVERY STATE OF THE UNION AND IN DOZENS OF OTHER COUNTRIES. WE HAVE TENS OF THOUSANDS OF STOCKHOLDERS.

OUR SUPPLIERS AND TRADE CUSTOMERS EMPLOY HUNDREDS OF THOUSANDS MORE -- AND OUR CONSUMERS NUMBER IN THE TENS OF MILLIONS. THAT'S A TERRIFIC CONSTITUENCY. WE ARE ONE OF THE HALF-DOZEN LARGEST CORPORATE TAXPAYERS IN THE U.S.

THAT'S IMPORTANT, TOO, AND IT HELPS ENSURE THAT PEOPLE IN POLITICS WILL LISTEN TO US.

SIZE ALSO BRINGS WITH IT INCOMPARABLE RESOURCES OF EXPERIENCE AND SKILLS TO WHICH ALL OUR OPERATING COMPANIES AND MANAGERS HAVE ACCESS AND WHICH THEY MUST TRY TO USE.

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EVERYONE OF YOU HERE HAS SOMETHING OF THIS TO OFFER EVERYONE ELSE. THIS IS AN OPPORTUNITY TO LEARN FROM EACH OTHER.

PLEASE MAKE THE MOST OF IT, INSIDE THE FORMAL AGENDA AND INFORMALLY, OUTSIDE IT.

HAVE A GREAT MEETING AND THANK YOU FOR LISTENING TO ME.

2025417804

"FOCUS AND VOICE IN CORPORATE AFFAIRS"

REMARKS BY

HUGH CULLMAN

VICE CHAIRMAN

PHILIP MORRIS COMPANIES INC.

at the

1986 CORPORATE AFFAIRS WORLD CONFERENCE

WASHINGTON, DC

September 8, 1986

2025417805

I'm sure most of you have thought at some time or other that you've picked one hell of a business to be in.

Take cigarettes. In the United States today you can't look at the media, go to a cocktail party, or deal with an organization without realizing the tobacco business operates in an increasingly hostile climate.

Excise taxes... ad bans... and workplace smoking restrictions are only a few of the challenges.

And smokers everywhere else face similar restrictions.

Consumers of our other products have their challenges too. Beer and wine face increased taxation... and a new and active temperance movement whose first step has been to raise the drinking age.

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Shoppers never know when they may face a scare from the nuts who are threatening to contaminate our products, and those of other manufacturers. Though most of the scares turn out to be hoaxes and General Foods has been a leader in selling all its products in tamper-evident packaging, this is a national sickness that cries out for fresh solutions.

Controversies also surround coffee and the decaffeination process, some food additives, and the use of aspartame as a sugar substitute.

In fact, the deputy head of the European Federation of Consumer Organizations recently gloated over the merger of General Foods and Philip Morris. Now, he said, he had one convenient target -- a company that made, quote, "cigarettes, beer... and junk food."

You wouldn't be here if you weren't up to handling controversies. Still, in this climate sometimes it's hard not to feel that you've been singled out... that the ground is being cut out from under you... that the tunnel is narrowing to an end.

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But this is a fundamental misconception. Because when you stand back and look at societal changes, what you see is that the challenges we're facing are only a more intense version of what anyone is facing who produces products for human consumption.

We're living through a reevaluation of all the subtle habits of eating and drinking and taking care of oneself.... A whole new series of demands is being made... some of them reasonable, some of them crackpot.

So every product now has its critics. It doesn't matter whether you're producing milk, or beef, or eggs -- go talk to those people, and they'll tell you about their problems with zealots and pressure groups.

Who are these zealots and pressure groups? It's important to bear in mind that they are not always just idealists fighting for humankind. Many of them are attacking various products to advance hidden agendas.

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In cigarettes for instance, it may be no coincidence that when the mayor of New York gets in trouble, he embraces anti-smoking legislation as a diversion from corruption in city government.

When people want to dodge the issues of poor black health, they attack cigarette advertising directed at the black community rather than addressing themselves to the real issues of poverty and inadequate medical funding.

In food, the outdated Delaney Clause and its zero risk approach to food additives obscures significant food safety issues. Regulators are obliged to use their limited resources to eliminate any additive causing cancer in test animals, rather than focusing on additives which may pose a real cancer risk for humans.

In beer, the demands for controlling sales and advertising are scapegoats for inadequate social, medical, and educational efforts to deal with alcohol abuse.

And the list goes on.

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The truth is that a lot of crusading, no matter what the product, can itself be a smoke-screen to cover up serious problems that people and governments are reluctant to face.

History teaches us that this kind of scapegoating is nothing new. Zealotry, temperance and puritanism have been around for centuries, and unfortunately, they're not going out of style.

But the most important thing to keep in perspective is that the products we produce are basic sources of human pleasure and satisfaction.

People want what we sell. Cigarettes, coffee, beer and processed foods are enjoyed by millions and millions... all over the world.

Our consumers are, have been, and will be supporting us silently but eloquently -- with their pocketbooks.

2025417810

What we have got to do is strongly support them... by giving them a voice and a focus. We have got to be their advocates... in their unvoiced but deeply felt desires to have their pleasures and their choices of foods... and to freely enjoy them.

(PAUSE)

If I may say so, recently we've been quite successful.

Side by side with the threats and bad news, we've gotten our points across. To cite a few examples:

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Our industry so far has successfully defended every product liability suit.

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We've helped forge a new tobacco leaf program that should make American tobacco growers more competitive in international trade... and help the tobacco family work together again.

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U.S.A. and Miller have collaborated with one another, and with the Tax Reform Action Coalition and the Grocery Manufacturers Association, to defeat attempts by Senator Packwood to make excise taxes non deductible.

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We've worked with our government to reduce trade barriers against American cigarettes... and to open historically-closed cigarette markets like Korea and others on the Asian rim.

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We've worked to counter the methylene chloride scare concerning decaffeinated coffee. General Foods has been so effective that the FDA is using methylene chloride as the test case for altering the Delaney clause and its unrealistic standard for assessing the risk of food additives.

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We've helped defeat proposals to ban or restrict beer advertising, and have gotten the American Medical Association and the American Bar Association to back away from their support for beer advertising restrictions.

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We've thwarted both the efforts of some anti-alcohol forces to impose an adverse form of ingredient labeling on beer, and their efforts to put warning labels on beer packaging.

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When it comes to supporting consumers, Philip Morris U.S.A. has been resourceful in getting Philip Morris Magazine to reach over 1.3 million people.

These accomplishments are real. They didn't happen by chance.

And there's a lesson to be learned from them.

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Where we plan and organize, where we take effective action, where we reach out to our natural constituencies and join them into a forceful voice... we have succeeded.

But the problem is that when you envision a long war, you've got to prepare for a long war. When you see a broad process of social change going on all over the world, you can't merely deal with issues ad hoc, like a local fire department putting out one brush fire after another.

Left alone, brush fires get to be conflagrations. We can't ignore them and we don't. But its axiomatic that when you're dealing with broad-based and enduring issues, you're also going have to adopt similarly broad and farsighted programs.

That's why we set forth our corporate affairs initiatives in five-year plans... reinforced recently by an issues management committee. Our goal is nothing less than to create new climates of opinion... new constituencies... new forces to sustain our positions.

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You've all been involved directly or indirectly in formulating these five-year plans. They depend on the establishment of networks of supporting interests who are in sympathy with our issues and help us meet our goals.

These goals include:

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First, and most obvious, promoting legislation and administrative action that will make it easier for us to do business, and discouraging legislation and regulation that will make it harder. We recognize that we have got to work more effectively in Washington, state capitals, and municipalities.

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Second, we'll be promoting a sensible context for seeing controversies about our products... as well as working to encourage positive feelings about our products among consumers.

2025417815



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Third, we've got to keep encouraging a positive reception for our corporation in the shareholder and financial communities.

To achieve these goals, we've got to keep strengthening, coordinating and enlarging our ties with our consumers, our allies, and our constituencies.

And in doing that, we're got to be ready to help when our coalition partners want help with their own issues. If they've worked with us on ours, support for them is a prerequisite for their continuing support for us. We can't let ourselves become isolated by just pursuing our own goals.

What does our five-year plan mean to all of us in a practical sense?

It clearly means doing more of what you're already doing so well in our operating companies on product-specific issues like higher excise taxes on tobacco and alcohol, food additive labeling, and ad bans.

2025417816

It means broadening our coordination and scope on new corporate-wide issues that effect consumers and corporations. Some of these issues where allies are critical include product liability, Federal tax reform, income and consumption taxes, merger and acquisition legislation, funding mechanisms for Superfund, and multinational trade agreements.

Above all, our plan means mobilizing our constituencies to play a meaningful role in the future of Philip Morris.

You know who most of them are.

They're our growers and other suppliers -- and the people who have an interest in their well-being. It's estimated that for every dollar we spend, there's a ripple effect in the community worth five dollars.

Our constituencies also include our trade associations... our unions and workers... other corporations, media, and advertising agencies.

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They include our representatives from the states that supply our agricultural raw materials.

And they include our retirees and shareholders, as well as the community audiences reached by our cultural affairs programs.

Above all, our constituencies include our consumers -- the average soldier who wants to smoke... the executive who enjoys her coffee... anyone who likes a beer after work.

With all these groups in mind, we need to plan the proper use of our newly expanded influence as a very large corporate citizen and an influential member of business associations and coalitions.

And we've got to flex our muscles when it's appropriate to get full public affairs value out of our activities.

For instance, in the upcoming U.S. elections, we'll have more-focused guidelines for who gets help from our PhilPac, which as you know is the sixth largest industrial PAC in the U.S.

2025417818

And we'll be focusing our contributions and cultural affairs programs more tightly to get more more potential benefits. Budget permitting, we'll also develop promising new sectors for cultural and contributions support.

You'll hear more about such initiatives in sessions at this conference.

We need your advice and counsel, now and in the future. We particularly need your input on how to take advantage of another's strengths, and how to best deploy our initiatives and resources.

If you've got an idea, get behind it. Drive it through our bureaucracy.

I believe that head for head, you're among the best corporate affairs professionals in the entire world -- in any country, in any corporation. Your efforts are well regarded and well recognized throughout Philip Morris.

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But the most important thing to remember is that fundamentally the strength of our position lies in the strength of our products. They are things that people -- our consumers -- want... and have always wanted... and will keep wanting.

That kind of positive approach should be the inspiration for all the work we have to do.

Sir Winston Churchill once defined an appeaser as "the one who feeds a crocodile -- hoping it will eat him last." We have no intention of doing that.

We have a creative, useful program ahead in this conference. It should help you better handle the spectrum of issues before us.

We've designed the conference to give you time to get to know each other better. Please take every opportunity to talk and learn how you can help one another. I can't stress this too much. The relationships you build up and the information you exchange will pay incalculable dividends in the years to come.

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In those years ahead, I'm confident that together, we'll bring sense to this worldwide reevaluation of habits for eating and drinking and taking care of oneself.

I'm optimistic that we'll straighten out some of these misplaced idealistic priorities.

And I'm looking forward to involving other corporations and forging a stronger network than ever of supporting interests.

In short, there's an climate out there seeks to deny consumers simple pleasures and basic nutrition. We can change it.

Our advocacy can give those consumers a focus and a voice -- to our mutual benefits.

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You, your successors and your successors' successors will do all that and more. Philip Morris is going to continue doing well, and the savvy, enthusiastic and skilfull efforts of our corporate affairs teams are a big reason for my optimism.

We at Philip Morris are very proud of you.

Thank you all for a job well done.

(0154v)

2025417822

Remarks by  
JOHN A. MURPHY  
PRESIDENT AND CHIEF OPERATING OFFICER  
PHILIP MORRIS COMPANIES INC.  
at the  
CORPORATE AFFAIRS WORLD CONFERENCE  
September 9, 1986

2025417823



Good morning. Its always good to be with you political and communications mavens.

My task is to give you an overview of where the company stands.

Before 1985, cigarettes accounted for more than 92 percent of our income. Our cigarette business was growing -- and it will continue to grow in the future. Still, we felt that expansion into compatible areas not only would provide additional opportunities for growth, but also would position us to compete more effectively in the cigarette market.

General Foods is making such expansion possible. As you know, it is the largest food company in the United States, with annual revenues of nearly 10 billion dollars.

Philip Morris and General Foods are highly compatible. Like Philip Morris before the acquisition, General Foods sells low priced consumer packaged goods that are marketed in much the same way as cigarettes and beer. General Food's international presence fits well with our philosophy at Philip Morris.

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Although we did not project synergistic benefits from our new arrangement, we are in fact achieving administrative cost reductions, advertising economies, and significant cooperation in the R & D and international areas. In addition, General Foods' capital expenditure plans for the next five years have been increased so we can capitalize more quickly on the opportunities available in the foods industry. Overall, our experience since November of 1985 has been good.

(PAUSE)

Let me quickly describe the current organizational structure of Philip Morris companies for you. We've had enough changes over the past year to make that worthwhile.

Philip Morris Companies now has four subsidiaries: Philip Morris Incorporated, General Foods, Miller Brewing -- which became a first tier subsidiary in July -- and the Philip Morris Credit Corporation. Also in July, Mission Viejo became a subsidiary of the Credit Corporation.

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Philip Morris Incorporated currently comprises two operating companies, Philip Morris U.S.A, and Philip Morris International, which are responsible for our worldwide cigarette business.

General Foods manages its business through three operating sectors -- the U.S. grocery business, worldwide coffee and international products, and processed meats.

So we have three primary business segments: worldwide cigarettes, the International Food Business, and U.S. Brewing. In addition, we are involved in financial services activities and new community development.

In the U.S., Philip Morris' cigarette sales volume gain last year contrasted with a decline for the industry, and was achieved by increasing our market share .6 share points to nearly 36 percent, widening our leadership position. Through the first half of 1986, our volume was down 2.3 percent and our share was 35.9 percent.

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Last year Marlboro grew to a 22.4 percent market share, and this year it has held its approximate share of market. When smokers light up in the U.S., more often than one in five times, they're puffing a Marlboro.

Marlboro Lights, and 25 packs for both Marlboro Red and Lights, are adding to the overall growth of the brand.

Virginia Slims also was among the small number of established brands in the U.S. industry that grew in 1985. It has continued to gain through the first half, partly because of the success of Slims 120's.

Merit and Benson & Hedges 100's have lost some share in the first half, but with four of the top brands in the U.S., we are particularly well positioned to make volume gains through extensions of these successful trademarks.

The price/value category has grown to a 8.6 percent share of the U.S. market and become a segment we can no longer ignore. So, drawing on our experience outside the U.S., where multi-priced cigarette markets are common, we have launched Players Lights 25's and generically-priced Cambridge.

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While our launch of these brands will expand the overall price/value segment, we're convinced that both Philip Morris USA and the U.S. industry will maintain historical rates of real income growth. Since 1983, industry operating profits have increased more than \$1.2 billion -- or about 33 percent -- despite more than a four share-point increase in the low margin segment.

(PAUSE)

As you may be aware, over 100 product liability cases are pending against U.S. cigarette manufacturers. Philip Morris is a defendant in 49 of these. No cases are scheduled against Philip Morris this year.

Two appellate court decisions recently went in favor of cigarette industry positions. And over the past year or so, 15 cases either have been won by the industry or simply dropped. More than 300 third party actions against the cigarette industry by an asbestos company were dismissed on procedural grounds.

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The industry has never lost a lawsuit, nor paid any money to settle one. We certainly intend to present the strongest possible defense in any case brought against us. We've been faced with these cases for almost 30 years, and we're as confident today as we have been in the past that our defenses will prevail.

(PAUSE)

Outside the United States, cigarette unit volume was up 2.6 percent in 1985. Our own unit volume increased faster, by 6.5 percent. Our share of that market rose to 6.6 percent. Through the first half of this year, our volume was up 6 percent.

Despite the strength of the dollar throughout most of last year, our volume increased in the U.S. export business. Our share of that market rose to 62 percent, and through the first six months, export volume was up more than 10% over the same period in 1985. As you may know, export sales have very high margins.

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We do business almost everywhere in the world. Although the industry's profit and volume opportunities are limited in places like the Soviet Union and the Chinese domestic market, in the 24 markets that represent nearly 61 percent of the remaining available volume, our share is growing, even though total industry volume is flat.

In these 24 prime markets our share increased from 13.2 percent in 1980 to nearly 17 percent in 1985. Our unit volume in these markets has grown at a compounded annual rate of 5.8 percent for the last five years, reaching 227 billion units in 1985. That's 82 percent of our total international volume.

In the common market countries, for example, our aggregate unit volume was up 9 percent. Germany is Europe's largest market, and there the Marlboro family increased its market share nearly 4 percentage points, to 18.6 percent in 1985. In the first six months of 1986, it has again risen nearly 3 percentage points to 21.5%.

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Last year we also did well elsewhere in Europe, and in Latin America, Australia, and the Far East.

(PAUSE)

Of particular note were our volume increases in Japan. Volume was up 8 percent in 85, and fully 77 percent through the first half of 1986. I make note of Japan for two reasons. First, although it is not one of major markets at present, its potential is enormous. Second, the opening of access to retail outlets by the Japanese government was assisted by corporate affairs people. So, you can have a direct impact on our bottom line.

Overall, our international cigarette business has a rising share of the world market. That share is still small, and we intend to keep pursuing profitable volume growth. The recent weakening of the dollar against many foreign currencies makes us more confident than ever that the international business outlook is bright.

(PAUSE)

2025417831



With General Foods, Philip Morris Companies has a commanding position in the U.S. and international food industries. General Foods products dominate the categories in which they compete. Let me provide some highlights.

We have the leading position in the U.S. powdered soft drink business, primarily due to Crystal Light. In 1985, its second year of national distribution, Crystal Light was the nation's leading sugar-free powdered soft drink.

Entenmann's is fast becoming the first, fresh-sweet-baked goods company with national distribution.

General Foods continues to lead the packaged desserts business. In recent years, its share of the gelatin market has increased with the introduction of sugar-free products.

But, changing tastes have created a new growth opportunity for General Foods. We've taken over national leadership of the growing frozen novelty business with the introduction of Jell-O Pudding Pops, Gelatin Pops, and now Fruit Bars.

2025417832

Birds Eye is another valuable brand name that's been used to enter a growing market. General Foods remains the share leader in the large frozen vegetable business, and is now using the Birds Eye name in one of the food industry's most promising areas of development -- prepared convenience meals.

Of all our markets, none is more competitive than breakfast cereals, where Post cereals is number three. In the cereal business, new product activity is very important and this will be a key to improved performance in the future.

Coffee is General Foods' largest single product. In the U.S., the Maxwell House, Yuban, Sanka and Brim brands hold better than 38 percent of the market.

We have strong coffee franchises in many other countries as well. Coffee is a major part of our international businesses and it's the driving force behind our rapid growth in the populous Asia/Pacific region.

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In addition to coffee, General Foods has a number of other very successful national franchises outside the U.S. For example, our Hostess brand is the largest snack food in Canada with a 34 percent market share. In Brazil, we've got Kibon, which accounts for 76 percent of the ice cream market. Hollywood chewing gum is by far the number one gum in France, with an 88 percent market share.

These businesses are very profitable and they continue to grow. In fact, more than 70 percent of General Foods' international brands increased market share in 1985.

For processed meats, both volumes and margins increased in 1985. Oscar Mayer and Louis Rich are General Foods' principal brands, and they maintained share leadership in every major category in which they compete.

For example, we hold a one third share of the red luncheon meat category and more than one half of the rapidly growing white luncheon meat market.

(PAUSE)

2025417834

Miller shipped 37.1 million barrels of beer in 1985 and maintained our market share.

For Miller High Life our "Made the American Way" marketing program, using new advertisements, labels and packaging, and special point-of-sale support materials, has helped slow the brand's erosion. In addition, Miller High Life Genuine Draft strengthens the position of High Life in the market by putting a second brand against our competition in the premium category. We have every expectation that these moves will at least stop High Life's decline.

Let me stress, however, that Miller is not a one brand company. Miller is not dependent on High Life for its future.

Lite continued to grow in the United States last year, against stiff competition, and maintained its dominance of the growing reduced-calorie category.

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We're continuing to explore a wide range of other products to capture additional share of the market. And we're starting to test the response of the worldwide beer drinking public to American beers.

Among other international initiatives, in March, a licensee, Courage Limited, began brewing and marketing Miller Lite in England. It is now offered in the London area where you drink it at room temperature. I find that a little hard to take but, the results so far, no pun intended, are encouraging.

(PAUSE)

1985 marked Philip Morris Credit Corporation's third full year of operations. PMCC's financing revenues advanced to 93 million dollars while net earnings more than doubled -- to over 23 million dollars. Compared to the first half of 1985, the Credit Corporation's earnings doubled in the first six months of 1986.

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On April 1st of this year the General Foods Credit  
Subsidiary was merged into PMCC. General Food's  
profitable portfolio complements and extends our business.

(PAUSE)

Mission Viejo has been made a subsidiary of the Credit  
Corporation to give Mission greater financing  
flexibility. Helped by declining interest rates,  
Mission's housing sales reached a record in the first half  
of 1986. Its housing sales through June were nearly 12  
percent higher than its previous best first half in 1977.

Your colleagues from Mission are not at this meeting  
because they are preparing to host a major international  
conference of town planners.

(PAUSE)

Let me now spell out our objectives in the years ahead.

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Our goal is to carry our superior earnings growth record into the future. Over the last 5 years our earnings per share grew at an annual average rate of 18.9 percent, which is a rate better than that of the consumer products industry as a whole -- and of our principal competitors. Our objective is to achieve similar performance in the future. The basic mandate for each of our operating companies is to meet volume and profit objectives so that the corporation can achieve this goal.

Vital elements in our overall objectives are still growth in physical volume and market share. This kind of growth, more than anything else, drives the management of Philip Morris. We intend to protect and increase the volume and market share positions that we have attained over the years in our key businesses.

We are committed to businesses which form the basis for an expanding, worldwide consumer goods company. In it, tobacco, while continuing to grow in sales and in profitability, will represent a smaller percentage of our overall sales and income mix.

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(PAUSE)

While we are generally satisfied with our recent performance, and are confident of our ability to keep generating good results in the coming years, I don't want you to think that we are satisfied with every element of our business.

In the case of Seven-Up, for example, we could not realize or forecast a satisfactory return on our investment nor achieve a strengthening of the company competitive position. This is why, as you know, we sold the international franchise business to PepsiCo in July. We will divest Seven-Up's remaining assets in the near future.

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We are forecasting a positive cash flow, and a clear challenge is effective utilization of the funds available. One obvious way to use them is to reduce debt. But Philip Morris remains a growth oriented company and will continuously look for opportunities, both internally and externally. That doesn't mean we're considering another major acquisition at this time -- we're not. However, smaller acquisitions which supplement and strengthen our core businesses are a distinct possibility.

Overall, the worldwide cigarette and food businesses, and the U.S. beer industry are enormous. They include able competitors, and are subject to domination by a few strong brands.

Our intention in each is to identify shifting consumer tastes and meet those tastes with new product entries, while giving appropriate attention to our established brands. We have spent 3.1 billion dollars over the past 5 years on capital programs which have made us a low cost producer. And we will continue to commit our growth resources to increasing our company's bottom line as well as its revenue base.

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In short, we see tremendous worldwide potential for Philip Morris Companies Inc. in the years ahead. People like you will be critical to that success.

(0592M)

2025417841

Remarks by  
Thomas F. Ahrensfield  
Senior Vice President and  
General Counsel  
Philip Morris Companies Inc.

Corporate Affairs World Conference  
Washington, D.C.  
September 9, 1986

2025417842

Thank you.

With all the talk in world capitals about armaments and diplomacy, you sometimes can forget that for most governments, no issue is more volatile than agriculture. Few governments ever get kicked out of office for their foreign policy-- but governments do rise and fall on agricultural issues.

So in our own field, the recent developments in leaf tobacco raise some general issues for all the agriculturally-based businesses we're in.

Briefly, I'd like to tell you what's been going on.

Part of its significance comes from a bumper crop here in Washington.

In the U.S. Congress during the last year, at least five major anti-tobacco bills have been introduced, ranging from the bill that made permanent the increase of the cigarette excise tax from 8 cents to 16 cents to the proposed banishment of smoking to a few designated areas in all government buildings.

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In addition, various government agencies proposed their own measures, including bans on cigarette sales in military commissaries and smoking on commercial aircraft.

When smokers face restrictions like these, who speaks up for them -- and us -- in Congress and the agencies?

Well, some of our most important supporters happen to be

-- Senators Wendell Ford and Mitch McConnell, from Kentucky...

-- Senators Jesse Helms and Joel Broyhill, from North Carolina, and North Carolina Representative Charlie Rose...

-- Plus Senators and Congressmen from North Carolina, Virginia, Georgia, and Florida.

Now, these people are hardly speaking up for us because of our contributions to their campaign funds.

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In fact, these people are on our side because they represent states where a major economic activity is growing tobacco or dealing in tobacco... or dealing with people who grow or deal in tobacco. In these states, not only the growers and warehouse people but the local banks and Buick dealers and bakers all have a stake in the health of tobacco.

So when we talk about the need for making and keeping allies among people in tobacco country, it's not an abstract concept or a historic loyalty.

Just two years ago, Hamish Maxwell raised some disturbing questions about tobacco growing and importing in this country. As chairmen are prone to do, Hamish did something quite unusual. He asked a lawyer to look into a farm problem. My agricultural expertise consisted of growing a few roses in my backyard and finding some kid to mow the lawn.

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Just in case that might not be enough, Hamish got Dave Zelkowitz to work along with me, which was not much of an improvement. Zelkowitz had worked in marketing most of his life, and grew up in Manhattan where, as you know, the tobacco fields are few and far between.

With the help of Witcher Dudley and Gene Knorr, the two of us set out to find out what the fuss was all about.

What we came up with taught us that Hamish had good reason to be concerned about the situation of tobacco in this country --- and he also had good reason to suspect that the problems were not solely in the hands of the agricultural specialists or the governmental specialists, or the public relation specialists, or the finance specialists.

Our primary finding was that U.S. leaf tobacco, which after all was a native American product and had always been a major export crop, was in trouble.

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-- As recently as the early 70's, almost a third of the flue-cured tobacco grown in the world was grown in the United States. About half the flue-cured traded in the world market came from the U.S.

Burley tobacco, which is closely identified with American blend cigarettes, was even more concentrated. 60% of the world's production was grown here.

-- But by the early 1980's, just a decade later, production of American flue-cured and burley was declining. At the same time, worldwide production was increasing. Numerous third world countries were getting into the tobacco exporting business. They were shipping a product that was getting closer and closer to American quality... and at prices far below U.S. levels.

-- The U.S. share of worldwide flue-cured production was dropping -- to about 10 percent. Burley was holding up a little better, but only because a drought in 1983 had caused a shortage.

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-- The situation was so bad that American cigarette producers had started to take advantage of the lower price tobacco available overseas. This probably had a fair amount to do with generic cigarettes getting started in this country.

Why were American prices so high compared to the rest of the world? Well, labor costs are certainly much higher than in places like Brazil or Zimbabwe or India or Korea. But that's only part of the answer.

Foreign government subsidies, we found, were also not a big factor. There was a little of that going on, of course, but not much.

Very simply, the main reason this country's tobacco prices were so high was that they were kept that way by the government support program.

(pause)

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Like most of our agricultural programs, and many elsewhere, the tobacco program dates from the Depression and was meant to stabilize the market -- to avoid wide fluctuations in prices from year to year and make sure the growers got an adequate return.

It sets the total amount of tobacco that can be grown and sold, allotting the total primarily among farms that were producing tobacco when the program started. Since historically this was in Kentucky, North Carolina, and other Southern states, the program has kept tobacco-growing concentrated there.

But the program had gotten out of control.

For most of the last two years, we have been participating in an effort to do something about that.

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That effort provides a good example of how seemingly-limited issues have multiple dimensions. And though this particular case involves tobacco, it's not hard to imagine a similar series of events cropping up in any product area, including those based on sugar-beets, grain, or meats.

To give you some context, under the U.S. tobacco program farmers bring their tobacco to auction warehouses near their farms, where the tobacco is graded by government inspectors. On the inspection ticket for each lot the inspector writes a support price. This is set by statute, and prices are raised in rough relation to production costs.

If a pile of tobacco fails to attract bids higher than the support price, the farmer gets the support price. The tobacco then goes into a government-created storage pool from which it can be sold in years of shortage.

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Technically the government does not buy the tobacco. It simply loans the money to the farmer and takes the tobacco as collateral. By law, however, this is a non-recourse loan, which means that the government has no way of collecting the loan except on any money the tobacco brings if it's ever sold.

Most agricultural support programs work roughly this way. You can see why they can become very expensive if the government is setting artificially high prices... lending farmers money based on those prices... and then absorbing the losses when the crops are sold at much lower prices.

In 1982, however, the growing antismoking climate reached the tobacco program. In response to outcries against so-called tobacco subsidies, the farmers started to be assessed for the cost of the pool operations each time they brought tobacco to auction. The intent was to make the program operate at no net cost to the government.

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The growers got upset and frustrated. Tobacco prices remained high, but the growers were getting less and less of the money as more and more of it went into the assessments.

The growers also perceived the ever increasing supply of foreign-grown, low-cost tobacco as a threat to their own livelihoods.

For Philip Morris, the quandry was obvious. The right commercial decision seemed to be... buy as much good quality foreign tobacco as possible and keep our costs down.

The political wisdom was directly contrary. It said... stick to U.S.-grown tobacco because Congressional support from the tobacco-growing states is so important to us on so many matters directly affecting our business.

Pondering that quandry, we concluded pretty early in the game that the U.S. tobacco program is a mixed blessing for Philip Morris.

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The anti-tobacco forces loved this one, and it had some support among the more militant growers' representatives. Most growers, however, could see that raising taxes on cigarettes was bad for their business as well as ours.

As we talked with various individuals in the government and outside of it, we came across the beginnings of a wiser plan. It would lower the support prices and make other improvements to the tobacco program if... and it was a big if... IF the tobacco manufacturers would agree to buy all the tobacco which had accumulated in the pool. By then this amounted to about 3 billion dollars worth of tobacco.

This plan had a businesslike sound to it. assuming, of course, that prices were allowed to go low enough to make an impact on the world market.

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The plan also seemed to have the tacit blessing of Senator Jesse Helms, the powerful Chairman of the Senate Committee on Agriculture, since it had been developed by people close to Helms in the flue-cured growers' co-op. It was Helms himself who outlined the plan to PM people including Hamish Maxwell, John Murphy, Stan Scott, and Witcher Dudley.

But here antitrust problems arose.

Helms basically wanted the plan to be accomplished through administrative action by the Department of Agriculture and voluntary participation by the cigarette manufacturers. We felt very strongly that six cigarette companies voluntarily banding together to buy-out government stocks at a set price was an invitation to massive anti-trust litigation which could result in huge penalties.

Our potential financial exposure from the treble damages that are assessed in such suits was no less than 10 billion dollars -- greater than the entire assets of Philip Morris at the time.

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So we told Senator Helms that Congress had created the tobacco program, that only Congress could change it, and that only Congress could grant protection from the sort of anti-trust problems we anticipated.

Initially, the Senator was very reluctant to try passing new tobacco legislation. He knew as well as we did that the U.S. Congress has an anti-tobacco bloc which would oppose anything that might benefit this industry.

Finally, however, Senator Helms got the strong backing of both Kentucky Senators -- Wendell Ford, a senior Democrat, and the newly-elected Mitch McConnell, a Republican. They convened a series of meetings involving all parties in the U.S. tobacco business -- cigarette manufacturers, the growers' associations, the cooperatives, and the tobacco dealers. The law that finally came out was developed under Congressional auspices in face-to-face meetings between these groups.

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It was essential to make it clear throughout the process that this was the growers' plan. Congress would never pass a plan identified as coming from the manufacturers. So one of our tasks was to stress the fact that it did indeed reflect their interests, to let their spokesmen carry the ball, and to keep our own profile low.

After three months the Senate meetings culminated in an agreement which both the manufacturers and growers felt was an improvement over the current program. As with any compromise, no one was completely happy with it, but each side felt it had gotten the best it could.

Though the agreement was worked out in June of 1985, actual legislation was not passed until April of 1986, and meanwhile current crops of burley and flue-cured tobacco had to be sold.

Administrative procedures attempted to temporarily reduce the support prices until the legislation could do to it permanently.

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As many of you know, the tobacco bill and an excise tax extension were bundled into the 1986 Budget Reconciliation bill which was eventually passed and signed by the President on April 7th of this year. It took another 89 days for the final details of the buy-out contracts between the manufacturers and the Statilization Boards to be finalized and approved by the Secretary of Agraiculture. In the end, only four of the six cigarette manufacturers partaicipated, but these four agreed to buy out all of the tobacco.

What was accomplished by all of this?

First, tobacco prices in the U.S. have been reduced by 15% to 20%. That's good for the companies who now buy in the U.S.

Are prices low enough for American farmers to recapture the business they have lost in the world's marketplace? Most of the dealers think that not. Only time will tell.

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We have no plans to increase our own purchases of offshore tobacco and may actually reduce them. Still, We have kept our flexibility by fighting off the persistent calls for tobacco import restrictions. If imports are restricted, exports will face retaliation.

Another possible accomplishment is that under the new program, U.S. crop sizes are to be set by a formula that takes account of actual market demand. This is intended to prevent overproduction. Unfortunately, political compromises which had to be made with the formula make it somewhat less effective than we would have liked. The possibility still exists that the pools will fill up again with surplus tobacco in a few years.

Finally, due to the manufacturers' buy-out of the old surplus tobacco, under the new program the no-net-cost assessments have been greatly reduced and are being shared in part by the purchasers. Will the growers be content with this? Opinions are divided here.

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Angry at the temporary 1985 support prices, one small group of South Carolina growers sued the Department of Agriculture and all the tobacco buying companies, arguing that in setting the price administratively, the Secretary of Agriculture had exceeded his authority and the tobacco companies had colluded with him. The suit was recently dismissed, but it is likely that the animosity which led to it still smoulders.

So does the growers' fear that U.S. manufacturers will turn to low cost imported tobacco in greater and greater amounts.

On the other hand, the Congressional delegations from the tobacco growing states seem to realize that the bill has resolved most issues, at least for the moment. In recent months the delegations have closed ranks, and have been staunchly defending us and smokers against the various attacks on the cigarette industry in Congress.

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If there is a lesson in all of this, it might be that we all need to be aware how multidimensional the issues are that we encounter every day. What began as a question involving our production costs and product quality quickly revealed itself to involve our credibility with government, our corporate image, our legal liabilities, and our ability to deal with a number of other issues that at first seemed unrelated.

If other PM products ever come under intense fire -- as some are already, and as products with sugar, preservatives, and fats one day may -- the potential alliances between producers and manufacturers will require very careful tending indeed. Now may not be too soon to begin thinking about contingency plans in these areas.

Thank you very much. I'll be happy to take questions.

(0947D)

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"PUBLIC AFFAIRS AT GENERAL FOODS"

Remarks of James L. Ferguson  
Chairman and Chief Executive Officer  
General Foods Corporation  
at the  
Philip Morris Corporate Affairs Conference  
September 10, 1986

2025417861

Good morning. I'm very pleased to be here with you today, to talk about public affairs at General Foods.

The reason is that, at General Foods, all of us are involved in public affairs. The responsibility for it goes right to the top and involves our entire organization.

Public affairs is integral to our operations. It plays a direct role -- and an increasingly large role -- in our business decisions.

A major reason for this is that the job of top management is becoming more and more externally oriented. Public issues of all types are taking a greater amount of our time, and the time of the leaders of other major companies.

So we have to be increasingly aware of, and involved in, what's going on outside company headquarters. That way, we can make sure that what's going on inside the company is right for General Foods and its constituencies.

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That world outside is not only changing, but it's changing faster and faster. The so-called "Future Shock" syndrome.

This accelerating pace of change, as the historian, Arthur Schlesinger has written, "has placed traditional roles and institutions under severe and incomprehensible strain."

One of those institutions is business. Business is being swept up by change. Demographic and lifestyle changes. Political and social changes. Changes on the world financial scene. Changes in government regulations, tax laws, antitrust laws and so on.

And as we in business work not only to survive, but to thrive and to grow in this changing world, we need strong, hands-on communication with that world. Communications coming in, and communications going out.

In a recent speech, Ken Roman, the president of Ogilvy and Mather, called this sensitivity to what's going on around you "fingerspitzen." It's a German expression meaning literally feeling in the fingertips.

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Ken told of a new manager of the Boston Red Sox, back in the 1940's, who'd been asked by a reporter if he could get along with Ted Williams, who was sort of the John McEnroe of his day.

The manager answered: "Anyone who can't get along with the only .400 hitter in baseball doesn't deserve to be manager!" That man had fingerspitzen!

Today, a business manager who doesn't know what's going on outside the factory gates doesn't deserve to be a manager, either.

And in many companies, including Philip Morris and General Foods, it is Public Affairs that serves as our eyes, our ears and our voice in communicating with that world. Our fingertips.

As our intelligence unit at General Foods, Public Affairs provides or assesses many of the basic environmental assumptions on which we base our strategic plan.

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For example, a key environmental assumption in that plan is consumers' increased attention to food safety and nutrition. We know that consumers are seeking more information on these issues and are taking more responsibility for their well-being.

We not only know this in part from Public Affairs. But, as I'll explain in a moment, we've also dealt with this issue in great measure through Public Affairs.

But Public Affairs' role is more than just ingesting and communicating information. We count on Public Affairs to assess the significance of that information -- the issues we face and the environment we live in -- to help us determine what the company stands for in this world today.

To help us define, understand and enunciate the often intangible factors that give a company its distinctive culture. Its ethos.

And that's terribly important to a company's success, in my view. For we believe that all institutions exist at the sufferance of society.

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And therefore, companies must continually earn the right to participate in society. They must contribute to the common weal. Companies that don't do this will lose public favor and, eventually, go away.

Likewise, we also believe that our businesses will do best in a vital, robust society. A society that is not vital and not robust is not a good place to do business -- nor a good place to live, for that matter. We don't believe that General Foods can thrive, long-term, if society isn't thriving.

And Public Affairs is a critical part of our ongoing efforts at General Foods to influence our society positively -- and thereby, to create a better environment for our businesses.

A lot of this sounds familiar to you, I'm sure. Corporate Affairs people at Philip Morris do similar things, and do them well. And, of course, there are many important occasions when the public affairs interests of General Foods and Philip Morris coincide. Such as dealing with the investment community or the financial media.

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But there are other times when General Foods has separate and distinct issues and constituencies. Ones that especially concern General Foods, its food and beverage products, or specific food industry matters.

Perhaps the best example is our corporate nutrition information program, which I mentioned earlier. It has evolved over the past decade from a defensive, reaction type of program of damage control, to a positive business-building program. I'll tell you how this came about.

If you'll recall, the public attitude toward the food products of companies like General Foods was not all it could have been back in 1976, '77 and '78.

There was a great deal of public confusion and misunderstanding about nutrition. We were increasingly seeing a nation of food-avoiders, self-styled dietary programs, and a great deal of public discussion of something called "junk food."

This public concern focused not on our product categories alone. In some cases, it was aimed specifically at GF's products.

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We were concerned about it. And we considered at length what we ought to do. After a lot of soul-searching, we launched a major public information campaign in 1980.

This campaign was called "Sane Talk About Food and Your Health." It focused on the U. S. Dietary Guidelines that had just been issued by the government, through the Department of Agriculture. We were largely in agreement with them. And we saw in them an opportunity to demonstrate that our position had credibility and was very much in line with the government's.

Within weeks of the the federal guidelines' being issued, we were ready with a series of full page ads that ran in major newspapers and magazines throughout the United States.

In them, we pointed out that the government's guidelines encompassed the very nutritional principles that General Foods had long supported -- those of balance, variety and moderation. And we also joined in the government's review of specific dietary issues like fats, cholesterol, sugar and sodium.

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The ads were a terrific platform for establishing GF's credibility as a food company that had real strength in nutrition science. A company committed to improving consumers' knowledge of nutrition.

As a result, we found ourselves being invited to participate in all sorts of forums, to speak out on our views about nutrition.

As that corporate ad program progressed during 1980 and '81, our General Foods scientists -- together with people from Consumer Affairs and Public Affairs -- already were working to take those principles a step further. And that became the next phase of our GF nutrition program, the Setpoint Diet.

The Setpoint Diet is a concrete way for individual consumers to use the dietary principles that GF has been promoting. It's based on a simple, common-sense principle that people have a "set point," or natural level, for their weight.

And they can lower that set point by both moderate exercise and a sensible, balanced diet. One that can include many General Foods products.

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The totality of all this nutrition information activity since 1978 is an example of our not only stemming a threat, but of turning it into a business building opportunity. And I think it has been truly successful.

As a result, we've come through this period of challenge -- truly a public affairs challenge if ever there was one. And we're in a stronger position than when we started.

These are examples of active, positive public affairs efforts to foster General Foods' beliefs. And it's the kind we most like to put our efforts toward.

But, as in any public affairs effort, there also are times when we have to deal with a crisis.

And the key role of Public Affairs in GF's crisis management was illustrated all too clearly recently, when we received a number of threats of contamination of various General Foods products.

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Starting in early July, General Foods and many other food manufacturers received several phone calls, alleging that various products had been contaminated. The threats to GF, which have continued through of the summer, have affected mostly Jell-O brand dry dessert products and Kool-Aid powdered beverages.

GF received its first threatening call July 10. The caller claimed that some Jell-O brand products at a Jewel store in Chicago and a Kroger store in Detroit had been contaminated with cyanide.

We immediately put into effect operating procedures that we have in readiness to deal with such events. Within one hour of the first call, our crisis management team met. It consisted of the general manager of the division affected, along with Public Affairs, Law, Quality Assurance, Corporate Security, Corporate Sales, Technical Research and the General Foods Consumer Center.

Within two hours of that first call, we had notified Jewel and Kroger, advising them to remove the threatened product from their shelves in Chicago and Detroit.

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We also contacted the local news media, asking them to alert consumers to the threat. And we notified local health authorities, as well as the FDA and the FBI.

During the following 48 hours, we received two more phone calls, threatening other Jell-O products in Chicago. And, in the nine days from July 10 through 18, we received 16 threats in various parts of the country.

Throughout July and August, our crisis management team met frequently. Foremost among the team's concerns were three priorities:

First and foremost, to protect our consumers.

Second, to contain the threat, and thereby not only protect the consumer, but also our business.

And third, to get back to normal business as quickly as possible.

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As a member of the crisis management team, Public Affairs' assignment was to help the team assess the environment in which these threats were being made. And to insure that the media's coverage was accurate, not sensational, and focused on the proper geographical areas.

To help with the environmental assessment, Public Affairs asked the Grocery Manufacturers of America, our principal trade association, to check confidentially on what other companies were experiencing.

Seventeen other manufacturers had gotten at least one contamination threat by mid-July. This convinced us that we were not dealing with an attack focused on General Foods.

Public Affairs also took an objective look at Chicago, since the first three threats involved that city. Chicago, of course, was the cite of the Tylenol tampering in 1982 that killed seven people.

We also were concerned that the Jell-O brand might become a lightning rod in a rapidly deteriorating Chicago environment. So we decided to withdraw all dry mix Jell-O dessert products from retail stores in the Chicago area.

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Meanwhile, Public Affairs' efforts to get responsible media coverage began to pay off. Initially, because of the special history of Chicago, it was impossible to restrict the story to that area, and it became national news.

However, some members of the press began to see that overblown coverage might provoke copycatting of the threats. In fact, on July 11, the McNeil-Lehrer News Hour covered just this question.

Through Public Affairs, we voiced our concerns to various editors and review boards. As the threats continued, our relationship with the press continued to develop in a constructive way. Soon, we found that people in the media were asking us how we thought they should cover a particular incident! Which was, from our standpoint, very good indeed.

Despite all the threats, so far there has been just one actual contamination -- of some Kool-Aid on Martha's Vineyard. That occurred in mid-August, as the number of threats was diminishing.

Up to now, the threats we've received have not had any lasting impact on our franchises, as far as we can tell.

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Unfortunately, however, it seems that such threats will become a more common part of doing business from now on. What used to be an occasional, isolated incident has become a major societal issue.

As a result, there are several questions we're asking ourselves about dealing with future threats of that sort.

First, and perhaps most important: how can we react so that our relationships grow stronger with consumers, the grocery trade, the media and government?

The manner in which we've handled the threats up to now have strengthened those ties. We've communicated with these various publics freely and openly, and they've had the confidence in us to accept our advice. Naturally, we want to solidify this trust.

Second, what added resources do we need if these threats continue? Would it make sense, for example, to retain psychological advisors, to help us respond appropriately to these threats?

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Third, can our tamper-evident packaging -- which we think is pretty good -- be improved?

And fourth, should General Foods undertake consumer information programs on how to spot packages that have been tampered with? And if we do, how do we do it without just giving a blueprint to people who contaminate or threaten to contaminate our products?

These are the questions we're addressing currently, and Public Affairs is directly involved in helping General Foods' management find the right answers -- especially to those questions dealing with communicating to consumers and the press.

Just as it is involved in so many of the other issues that our company must deal with, as the world changes so rapidly around us. And just as all of you, corporate affairs professionals in all the Philip Morris companies, will be involved in the future.

The charge to you, then, is an extremely vital one in the future of our companies. It is to help us deal with the change around us.

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Because, if we cannot respond to change appropriately, or if we make the wrong responses, our businesses will wither and die.

But if can anticipate change, if we can seize upon it, and respond to it, and take advantage of it -- then we can translate that change and the challenge of the years ahead into continuing and dynamic growth for our businesses.

For dealing with change is a prerequisite to growth.

Almost 40 years ago, the CEO of a major company recognized that fundamental truth. He stated that he wanted no status quo in his company, or in the nation as a whole. Because, he said, "the end of growth is the beginning of decline."

That CEO was Clarence Francis, who was then Chairman of General Foods. He was a respected leader of business, as well as an advisor to four U.S. Presidents.

In the 40 years since Clare Francis spoke those words, both Philip Morris and General Foods have grown and prospered, far beyond what anyone could have predicted at the time.

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There has been no end of growth, no beginning of decline.

And that growth and prosperity will continue in the years ahead -- if we all apply our full talents, energies and wisdom to the supreme challenges that face us.

I have no doubt that we will.

Thank you, and good luck to you in your important work in the future.

(0958D)

2025417878

Closing Remarks by Stanley S. Scott  
PHILIP MORRIS CORPORATE AFFAIRS WORLD CONFERENCE  
Westin Hotel, Washington, D.C.

Tuesday September 9

BILL RUDER HAS JUST GIVEN US A THOROUGH OVERVIEW OF THIS CONFERENCE. BUT HERE ARE A FEW THINGS BILL DID NOT TELL YOU.

--THE SURGEON GENERAL HAS POSTPONED HIS GOAL OF A SMOKE-FREE SOCIETY FROM THE YEAR 2000 TO 4000 -- WITH 5000 AS A RAIN DATE.

--IN A SHARP REVERSAL, THE WORLD HEALTH ORGANIZATION HAS EMBRACED FREE ENTERPRISE AND BOUGHT THREE MILLION SHARES OF PHILIP MORRIS STOCK.

--THE CONGRESS HAS MOVED CIGARETTES AND BEER TO THE BOTTOM OF THE EXCISE TAX HIT LIST. IN FACT, A RELIABLE SOURCE IN SENATOR PACKWOOD'S OFFICE HINTS THAT THE SENATOR IS PLANNING TO INTRODUCE A CONSTITUTIONAL AMENDMENT OUTLAWING EXCISE TAXES.

--THE GOVERNOR OF OREGON AND THE PRIME MINISTER OF TURKEY WILL MEET NEXT MONTH AT AN ENTENMANN'S BAKERY ON LONG ISLAND TO SIGN THE FIRST INTERNATIONAL FILBERT ACCORD.

--AND FINALLY, THE TOBACCO INSTITUTE ANNOUNCED THAT IF JOHN BANZHAF DIDN'T STOP MALIGNING THE INDUSTRY, THEY'D SUE THE BASTARD.

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THE FOREGOING IS A LIST OF PROPHECIES WE'D LIKE TO SEE COME TRUE. IT'S OUR JOB TO MAKE THEM HAPPEN. AND I TRULY BELIEVE THAT IF WE APPLY WHAT WE'VE LEARNED OVER THE PAST THREE DAYS -- WE WILL MAKE THEM HAPPEN.

IN MY INITIAL CHARGE TO YOU, I SAID TO LISTEN UP, LISTEN HARD AND GET AROUND AND TALK TO EACH OTHER, LEARN FROM EACH OTHER. HOW MUCH EACH OF YOU HAS LEARNED DEPENDS ON HOW CLOSELY YOU PAID ATTENTION TO OUR MANY VERY FINE SPEAKERS AND PROGRAMS. HOW YOU APPLY IT IS A DIFFERENT STORY.

BEFORE I TALK ABOUT THAT, THOUGH, LET ME MAKE A COUPLE OF OBSERVATIONS. FIRST, OUR BATTLES ARE GETTING TOUGHER, BUT YOU'RE GETTING BETTER, TOO. YOU'RE REAL PROFESSIONALS. YOU'RE BETTER EDUCATED AND TRAINED THAN ANY CORPORATE AFFAIRS GROUP WE'VE EVER HAD. YOU'RE ALSO A TOUGH-MINDED BUNCH, AND THAT'S GOOD.

I TOLD YOU WHEN WE CONVENED MONDAY MORNING THAT OUR RESOURCES WERE GROWING AND THAT WE HAVE MANAGEMENT'S CONFIDENCE. I THINK THAT BECAME ABUNDANTLY CLEAR DURING THIS CONFERENCE.

A SECOND OBSERVATION IS THAT POLITICS PLAY A MAJOR ROLE IN OUR LIVES AND IN THE LIFE OF THE COMPANY. OUR CHAIRMAN MENTIONED THAT GOVERNMENT IS NOT GOING TO GO AWAY. ITS JOB IS TO GOVERN AND REGULATE. IT'S ALREADY BIGGER THAN ANY CORPORATION. AND YOU HEARD CONGRESSWOMAN LYNN MARTIN SAY IT'S NOT GOING TO GET ANY SMALLER. TO MEET OUR CHALLENGES, WE HAVE TO FINE-TUNE THE MANAGEMENT OF OUR RELATIONSHIP WITH THAT GROWING MONOLITH.

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IF ANY POINT WAS MADE REPEATEDLY, IT WAS THAT THE FINE-TUNING PROCESS MUST BE ONGOING, AND THAT IT REQUIRES HARD WORK AND A THOROUGH UNDERSTANDING OF THE PLAYERS AND THE PROCESSES. WE HOLD THESE CONFERENCES FOR SEVERAL REASONS. BECAUSE OUR OPPONENTS ARE GETTING SMARTER AND BETTER ORGANIZED. BECAUSE THE ISSUES ARE MORE NUMEROUS AND COMPLEX. BECAUSE OUR POLITICIANS--THE PEOPLE WE'RE PAID TO INFORM OF OUR GOALS AND INVOLVE IN OUR ISSUES--ASK TOUGHER QUESTIONS. AND BECAUSE WE HAVE TO ADDRESS ALL THESE SITUATIONS AND MORE.

SO LET'S NOW RETURN TO HOW YOU'RE GOING TO APPLY WHAT YOU'VE LEARNED HERE.

YOU KNOW YOU DON'T WORK IN A VACUUM.

THE CONGRESSMEN AND STATE LEGISLATORS WHO VISITED WITH US DEMONSTRATED THAT FEDERAL AND STATE GOVERNMENTS ARE INTERDEPENDENT. THE SAME HOLDS TRUE FOR OUR OPERATING COMPANIES. THE GENERAL FOODS ACQUISITION MADE US AWARE THAT CAPRICIOUS LAWS AND REGULATIONS AREN'T CONFINED TO CIGARETTES, BEER AND SOFT DRINKS. FROZEN FOODS, DESSERTS AND COFFEE HAVE THEIR OWN ANTI'S.

SO, MY FIRST CHARGE TO YOU IS TO EXPAND YOUR EFFORTS IN COMMUNICATING WITH EACH OTHER. GET TO KNOW YOUR COUNTERPARTS AND CONTACTS THROUGHOUT ALL THE PHILIP MORRIS COMPANIES. WHAT ARE THEY WORKING ON? WHO'S INVOLVED? WHAT ARE THE ISSUES? HOW CAN WE HELP EACH OTHER? HOW ARE THEY COPING WITH THEIR PROBLEMS? ARE THERE ANY COMMON PROBLEMS? THE BETTER YOU COMMUNICATE INTERNALLY, THE BETTER YOU'LL COMMUNICATE EXTERNALLY.

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CHARGE NUMBER TWO -- REMEMBER THAT THE THEME OF OUR CONFERENCE IS TOWARD A GLOBAL VIEW. THIS MEANS SEVERAL THINGS TO US. • WE ALL HAVE TO UNDERSTAND AT LEAST TO SOME EXTENT HOW GOVERNMENTS WORK ALL OVER THE WORLD, AS WELL AS WHO AND WHAT DRIVES THEM. THE GLOBAL NATURE OF OUR BUSINESS ALSO DEMANDS THAT WE LEARN TO EMPLOY THE LATEST COMMUNICATIONS TECHNOLOGIES. WE'RE ON OUR WAY TO BEING 24-HOUR CORPORATE AFFAIRS DEPARTMENTS, AND WE HAVE INFORMATION SYSTEMS PEOPLE WHO ARE CONSTANTLY UPDATING OUR COMMUNICATIONS RESOURCES. AGAIN, I DRAW A PARALLEL WITH THE MANAGEMENT OF OTHER AREAS OF THE COMPANY. IF WE ARE ON THE LEADING EDGE OF CIGARETTE-MAKING, BREWING AND FOOD-PROCESSING TECHNOLOGY, IT BEHOOVES US TO BE IN THE SAME POSITION IN COMMUNICATIONS.

CHARGE NUMBER THREE IS TO KEEP BUILDING CONSTITUENCIES. THEY NEVER GO OUT OF STYLE. NOT EVERY CONSTITUENCY IS WITH US ON EVERY ISSUE, BUT CONSTITUENCIES HAVE A WAY OF ADDING UP. THINK ABOUT ANDREW WHIST'S LIBERTAD FILM ON COMMERCIAL FREE SPEECH. NOT EVERY ONE OF THE GENTLEMEN WHO APPEARED COULD BE CALLED AN ALLY ON ALL OUR INDUSTRY ISSUES. BUT THEY ARE OUR ALLIES WHEN IT COMES TO OUR RIGHT TO ADVERTISE. AND REMEMBER THE EXCELLENT POINT DON NELSON MADE ABOUT GETTING TO KNOW THE PEOPLE BEHIND THE SCENES AS WELL AS THE SUPER STARS. THE EXPERTS WHO DRAFT THE LEGISLATION CAN BE AS VALUABLE TO US AS THE LEGISLATORS WHO SPONSOR IT.

AND AS YOU BUILD YOUR CONSTITUENCIES, USE THEM EFFECTIVELY. AS WE GET LARGER, DUPLICATION--I WAS GOING TO SAY UNNECESSARY DUPLICATION, BUT ALL DUPLICATION IS UNNECESSARY--BECOMES A RISK WE WANT TO AVOID.

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I THINK YOU'RE ACCOMPLISHING THIS MISSION. YES, WE HAVE OUR PROBLEMS, BUT I DARE YOU TO NAME AN INDUSTRY THAT ISN'T BESET BY THOSE WHOSE IDEA OF HEAVEN IS STIFLING FREE ENTERPRISE WITH UNNECESSARY AND UNFAIR REGULATION. THERE ARE ALWAYS THOSE WHO DON'T TRUST THE ULTIMATE WISDOM OF THE MARKETPLACE. THERE ALWAYS WILL BE.

WE SHOULD ALSO REMEMBER THAT OUR PROBLEMS ARE NOT EXACTLY NEW. IN THE TOBACCO BUSINESS, THEY GO BACK TO SEVENTEENTH CENTURY JAMESTOWN, VIRGINIA, WHEN THE KING OF ENGLAND DENOUNCED TOBACCO, WHICH HAD BEEN THE SALVATION OF HIS COLONY.

NOBODY EVER DENIED THAT BUSINESS IS A BATTLE. REMEMBER HAMISH MAXWELL'S OBSERVATION THE OTHER DAY ABOUT THE LANGUAGE OF EXCUSES. HE CITED "THE INTENSE COMPETITION," THEN REMINDED US THAT ALL COMPETITION IS INTENSE. BY THE SAME TOKEN, NO BUSINESS IS EVER FREE OF CONTROVERSIAL ISSUES. THEY ARE PART OF THE EBB AND FLOW OF BUSINESS. OUR JOB IS TO DIRECT THAT EBB AND FLOW IN OUR FAVOR. BE PRO-ACTIVE -- HELP YOUR BUSINESS DEAL WITH CHANGE -- TAKE ADVANTAGE OF IT.

I RECALL SOMETHING ELSE HAMISH SAID. BE AMBITIOUS FOR OUR BUSINESSES. DO EVERYTHING YOU CAN TO HELP SELL MORE OF OUR PRODUCTS, BECAUSE THE STRENGTH OF OUR POSITIONS DEPENDS ON THE STRENGTH OF OUR PRODUCTS.

BE AMBITIOUS FOR OUR BUSINESSES. BE AMBITIOUS FOR OUR POSITIONS. AND BE AMBITIOUS FOR YOURSELVES. TALK TO EACH OTHER. BELIEVE IN EACH OTHER. COMMUNICATE AND LEARN.

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WHEN YOU RETURN TO YOUR DESKS AND LOOK AT THAT STACK OF TELEPHONE MESSAGES...THAT FOLDER FULL OF MAIL...THOSE PROBLEMS THAT DIDN'T GO AWAY DURING YOUR ABSENCE...THINK ABOUT WHAT YOU LEARNED HERE--AND ABOUT THE RESOURCES AT YOUR COMMAND.

AND THEN GO TO WORK AND MAKE MY PROPHECIES COME TRUE.

THANK YOU -- THANKS FOR BEING WITH US...AND THE VERY BEST TO EACH AND EVERYONE OF YOU AS YOU PURSUE AND ACHIEVE YOUR GOALS IN THE WEEKS AND MONTHS AHEAD.

I COULD NOT CLOSE THIS CONFERENCE WITHOUT RECOGNIZING THE SPLENDID WORK OF EMILY LEONARD AND HER STAFF. THEIR EFFICIENCY AND ATTENTION TO DETAIL PERMITTED US TO GIVE ALL OUR ENERGIES AND ATTENTION TO THE PROGRAM. IF EVERYTHING ELSE SEEMED TO TAKE CARE OF ITSELF, THANK EMILY LEONARD AND COMPANY. LET'S HAVE THEM ALL STAND AND TAKE A BOW.

THANK YOU ALL AGAIN. GOD BLESS YOU.

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